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SUBJECT: SOUTH AFRICA: PRESIDENTIAL ADVISOR DISCUSSES
BILATERAL ECONOMIC RELATIONS

REF: PRETORIA 698

¶1. (SBU) Summary and Introduction. Econ M/C met March 2 with Alan Hirsch, Chief Director for Economic Policy Coordination in the Presidency, to discuss bilateral economic relations. The discussion included the status of U.S.-SACU free trade negotiations, the launch of the Accelerated and Shared Growth Initiative, the potential for labor reform, and upcoming visits to South Africa of important U.S. officials. Also participating from the Presidency was Senior Economist for Economic Policy Coordination Ashraf Kariem. Econ Deputy Chief and PASoff also attended. End Summary and Introduction.

TRADE

¶2. (SBU) ECON M/C began the meeting by noting that U.S.-SACU free trade negotiations had shifted directions over the past few weeks. In particular, the letter from U.S. Trade Representative Robert Portman to Trade and Industry Minister Mandisi Mpahlwa and other SACU trade ministers stated that there had not been much progress on the negotiations during the past two and half years. This made it difficult to meet our negotiating deadlines. In his letter, Portman proposed that our trade deputies meet to discuss what might be a realistic next step and to look at alternatives. Hirsch acknowledged that there seemed to be little prospect of concluding an agreement on time. Notwithstanding, he assured us that South Africa continued to view commercial relations with the United States as "extremely important."

ASGISA

¶3. (SBU) Hirsch then spent some time talking about Deputy President Phumzile Mlambo-Ngcuka's effort to stimulate economic growth and employment, called the "Accelerated and Shared Growth Initiative for South Africa" (ASGISA, see reftel). He stated that a shortage of skills was the main constraint to growth for South Africa, not a shortage of capital. ASGISA contained a number of strategies to address the skills shortage, in particular the Joint Initiative for Priority Skills Acquisition (JIPSA). As outlined by the Deputy President, JIPSA would be a new institution led by a committee of Ministers, business leaders, trade unionists, educators, and expert trainers who would find ways to supply

the skills that the market demanded.

¶4. (SBU) Beyond skills, Hirsch agreed that labor reform had to be a central element of any growth plan. Because ASGISA did not fully address this topic, he offered some background. Late last year, he said, the government embarked in an "interesting and exciting discussion around labor law, similar to the discussion that surrounded small business today," but it was a broader, informed discussion. The sense was that the key problem in labor law related primarily to contracts, dismissals, etc. This came with the acknowledgement that current practices had introduced significant rigidities into the labor market that went beyond what was written in law. Many of these rigidities affected small businesses and could reasonably be addressed within the context of the existing regulatory environment. Changes along these lines constituted most of the labor proposals outlined in ASGISA. However, some reforms would require changes in law. Here, the Minister of Labor would take the lead. By law, legislative changes had to be vetted with the National Economic and Development and Labor Council (NEDLAC) and its stakeholder groups. Hirsch said that at the moment he was reasonably confident of forward movement on labor reform, though not sure what the final result would be.

¶5. (SBU) In consulting with stakeholders on labor reform to facilitate the growth and development of small business, Hirsch noted that big business in South Africa was far more involved in the dialogue than it would be in another country. This was because South Africa's apartheid past had forced large companies into conglomerates that wound up occupying prominent positions sectors normally populated by small business. He added, however, that sector associations were increasingly representing the views of small and medium business in an effective manner.

¶6. (SBU) Hirsch admitted that there was more ASGISA could have conceivably addressed, such as trade reform and turning around "a rather xenophobic immigration policy." On this latter point, he noted that xenophobia cut across the black/white divide in South Africa, "with the two sides reinforcing each other in a strange way."

¶7. (SBU) Hirsch asked if the Embassy had had any contact with a group of largely U.S. based economists who were to be contracted by the South African Government to consult on ASGISA. The Mail & Guardian newspaper recently reported that Ricardo Hausmann, Professor of Economic Development at the John F. Kennedy School of Government, was the leader of this group. Other Kennedy School and/or Harvard professors included Dani Rodrik (political economy), Robert Z. Lawrence (international trade and investment), James Robinson (government), Philippe Aghion (economics), Frederico Sturzenegger (a visiting professor of public affairs), and Bailey Klinger (a teaching fellow). Non Harvard professors included Jonathan Leape of the London School of Economics (economics), Laurence Harris of the University of London (economics), and Roberto Rigobon from MIT's Sloan School of Business Management (monetary and development economics). Hirsch said that the group had already met with President Mbeki and a number of ministers. He understood that a consulting contract was in the process of being finalized.

Developments in Bilateral Economic Relations

¶8. (SBU) In the context of infrastructure investment planned under ASGISA, ECON M/C mentioned the successful reverse trade mission that the Commercial Service organized for ESKOM purchasing managers last fall, and Westinghouse' growing role in the Pebble Bed Modular Reactor (PBMR) project. Econ M/C added that the Embassy was working to create a bilateral committee on nuclear energy to foster technology exchange, something that should be of great benefit to PBMR. Hirsch appreciated the potentially important role that Westinghouse might play in commercializing PBMR in the world market.

¶9. (SBU) ECON M/C pointed out the good working relationship that had developed between the Independent Communications Authority of South Africa and the Federal Communications Commission. The two just finished their second regulator-to-regulator exchange, which included, among other things, a discussion of ways in which South Africa might reduce high telecom prices. He added that he had recently met with TYCO executives about their bid on the East Africa Submarine Cable System (EASSy) Project. TYCO was one of two leading bidders for EASSy, in which the major players were South Africa's Telkom and the Kenyans.

¶10. (SBU) On the negative side, ECON M/C noted that bilateral negotiations on Open Skies had "not gotten off the ground." Hirsch responded that South African Airways had been going through difficult times, and that the government was reluctant to open the South African civil aviation market, partly because it was trying to keep the British at bay. Hirsch added that the British were pressuring South Africa to open both internationally and domestically. The downside to a closed market, admitted Hirsch, was that it hurt tourism. Tourism was a key sector for growth identified under ASGISA. He concluded that if South Africa did not get Open Skies right, then "the other things did not matter."

¶11. (SBU) Econ M/C stated that the local American Chamber of Commerce had been reviewing the new Black Economic Empowerment (BEE) Codes of Good Practice. Issues involved more than providing clarity and consistency. Hirsch asked to see AmCham's comments when they were ready. "We would not want (BEE) to be major inhibitor to green field investment," he said. Hirsch added that investment fund managers had calculated that, given South Africa's current growth rate, BEE would cost companies already incorporated in South Africa only about 1-2% of their investment. He would be interested to see if that were true.

Upcoming Visits

¶12. (SBU) ECON M/C closed by stating that Secretary of Treasury John Snow would visit South Africa on March 22-23. On behalf of the Treasury, the Embassy had requested a meeting with President Mbeki. Econ M/C also noted that Secretary Snow would deliver a speech at an American Chamber

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of Commerce function, organized in cooperation with local business groups Business Unity South Africa and Business Leaders South Africa.

¶13. (SBU) ECON M/C added that the Overseas Private Investment Corporation (OPIC) would sponsor an Africa-wide housing conference in Cape Town on May 2-4. OPIC President Robert Mosbacher, Deputy U.S. Trade Representative Karan Bhatia, and African Development Bank President Donald Kaberuka would attend. An invitation to the event had been extended to President Mbeki. Econ M/C suggested that since DUSTR Bhatia was planning to attend, it might be a good opportunity to organize a trade deputies meeting for Deputy Minister for Trade and Industry Rob Davies and his SACU colleagues. Hirsch took note of the event and the opportunity.
TEITELBAUM